AR79

TO OUR SHAREHOLDERS:

The improved sales trend indicated in our last quarterly report and at our May, 1976 annual meeting has continued on into the second quarter. Consolidated sales for the 26 weeks ended June 25, 1976 amounted to $44,854,000 compared to $40,234,000 for the same period in 1975, an increase of 11.5%. The increase in sales in the second quarter was approximately the same at 11.4% with sales of $23,648,000 in 1976, compared to $21,234,000 in 1975.

The operating results, while showing an improvement over the previous year, still show losses on a consolidated basis. The pre-tax loss for the first half of 1976 is $1,542,000 compared to $4,086,000 in 1975. This resulted in a net loss after taxes for the six months amounting to $1,961,000 in 1976 compared to $2,703,000 for the same period in 1975. This, when expressed in earnings (loss) per share amounts to 67 cents in 1976 compared to 92 cents in 1975. The pre-tax figures present a better comparison of actual operating results because the effect of tax credits varies substantially between the two years.

All figures are based on the unaudited consolidated financial statements of the corporation.

The second quarter is traditionally a period of lower sales and production loading for the company because of the seasonal nature of many of our products. In the case of Consumer Electronics, it is also a time when the division faces a change-over of product lines and marketing programs. While each division is showing some improvement in this quarter over the previous year, the Electronics Division continues to face rapidly changing domestic and international market conditions.

During this period, Electrohome achieved a significant technological breakthrough with the introduction of the Electrohome/Advent model 750 "VideoBeam" projection color television system, providing a six-foot color picture. Because of the sophisticated technological aspects of this product, the start-up production schedules call for a relatively small number of sets in the latter half of 1976. We anticipate this product making a meaningful contribution to the operations in the year 1977 and beyond. The technical developments involved with this project are also being used to enhance the performance of our other color televison products. Associated with this project is a contract to supply electronic projection television chassis for use by the manufacturer of this product in the United States. This and other activities in the industrial and commercial electronics field are indicative of the change in direction the company is taking to ensure our future in the electronics business.

As stated, all other divisions or subsidiaries of the company show improvement over the previous year with the broadcasting subsidiary, Central Ontario Television Limited, and the Appliance Division showing significant sales and profit advances. The sales for Deilcraft Home Furnishings and the Industrial Products Divisions have also improved substantially.

Notwithstanding the above statements, we do not expect to achieve profitable operations for the year 1976 but are looking forward to further improvements in 1977.

The outlook for the balance of the year is based on the economic outlook in Canada which continues to remain quite sluggish in contrast to the United States which has had an upturn in their economy. We also expect to face a continuing problem with inflation and the present value of the Canadian dollar makes us, along with other Canadian secondary industry, less competitive in international markets.

August 24, 1976.

D.S. Sykes
Chairman of the Board

ELECTROHOME

an interim report to shareholders

June 25, 1976

ELECTROHOME Limited and Subsidiaries

CONSOLIDATED BALANCE SHEET
as at June 25, 1976

	1976	1975
	(in thousands)	
ASSETS		
CURRENT ASSETS		
Accounts receivable	$18,213	$14,498
Inventories	30,233	30,921
Prepaid expenses – tooling	874	1,103
– other	988	800
Income taxes recoverable	19	811
	50,327	48,133
FIXED ASSETS		
Land, buildings, machinery and equipment, at cost	33,168	31,613
Less: Accumulated depreciation	14,431	12,818
	18,737	18,795
INTANGIBLE ASSETS		
Excess cost over book value at date of acquiring shares of subsidiaries, less amortization	2,287	2,355
Goodwill, at cost less amortization	114	129
	2,401	2,484
TOTAL ASSETS	$71,465	$69,412

	1976	1975
	(in thousands)	
LIABILITIES		
CURRENT LIABILITIES		
Bank advances secured	$33,349	$33,001
Accounts payable and accrued liabilities	10,260	5,308
Sales taxes payable	384	430
Income and other taxes payable	528	283
Deferred service contract income	852	831
Principal instalments due within one year on long term debt	759	740
	46,132	40,593
LONG TERM DEBT (net)	8,244	8,992
DEFERRED INCOME TAXES	517	408
SHAREHOLDERS' EQUITY		
CAPITAL STOCK		
14,826 5¾% Preference shares (15,226-1975)	1,483	1,523
2,985,850 Participating shares (2,985,750-1975)	3,799	3,799
	5,282	5,322
RETAINED EARNINGS	11,290	14,097
	16,572	19,419
TOTAL LIABILITIES AND EQUITY	$71,465	$69,412

CONSOLIDATED STATEMENT OF INCOME
for the 26 weeks ended June 25, 1976

	1976	1975
	(in thousands)	
SALES	$44,854	$40,234
Cost of sales, selling, administrative expenses	44,525	42,214
Income (loss) before undernoted items	329	(1,980)
Depreciation	958	963
Interest on long term debt	389	393
Other interest	805	712
Amortization of intangible assets	41	41
	2,193	2,109
Loss before income taxes and extraordinary items	(1,864)	(4,089)
Extraordinary items – gain on disposal of fixed assets	322	3
Loss before income taxes	(1,542)	(4,086)
Income taxes (recoverable) – current	426	258
– deferred tax reduction	(7)	(1,641)
NET LOSS	$ (1,961)	$ (2,703)

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
for the 26 weeks ended June 25, 1976

	1976	1975
	(in thousands)	
Balance at beginning of year	$13,275	$16,830
Add: Net loss for the 26 weeks	(1,961)	(2,703)
Discounts on purchase for cancellation of preference shares	20	14
	11,334	14,141
Deduct: Dividends paid – Preference shares	44	44
BALANCE AT JUNE 25, 1976	$11,290	$14,097

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
for the 26 weeks ended June 25, 1976

	1976	1975
	(in thousands)	
WORKING CAPITAL DERIVED FROM		
Sale of fixed assets	$ 144	$ 21
Discount on redemption of preference shares	20	14
	164	35
WORKING CAPITAL APPLIED TO		
Operations*	969	3,340
Additions to fixed assets	567	802
Reduction of long term debt	141	126
Dividends paid – preference shares	44	44
Preference shares purchased for cancellation	40	40
	1,761	4,352
INCREASE (DECREASE) IN WORKING CAPITAL	(1,597)	(4,317)
WORKING CAPITAL AT BEGINNING OF PERIOD	5,792	11,857
WORKING CAPITAL AT END OF PERIOD	$ 4,195	$ 7,540

	1976	1975
	(in thousands)	
***Working capital derived from (applied to) Operations:**		
Net loss for the period	$ (1,961)	$ (2,703)
Items not involving working capital –		
Depreciation	958	963
Amortization	41	41
Deferred income tax (reduction)	(7)	(1,641)
	$ (969)	$ (3,340)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 25, 1976

1. Participating and Common Share Capital consists of:

	Authorized 1976	Authorized 1975	Issued 1976	Issued 1975
Class A Shares, Participating, without Par Value	3,144,665	3,121,540	1,132,515	1,109,290
Class B Shares, Participating, without Par Value	1,854,335	1,877,460	1,853,335	1,876,460
Common Shares without Par Value	1,000	1,000	–	–
	5,000,000	5,000,000	2,985,850	2,985,750

2. Outstanding Letters of Credit as at June 25, 1976, amounted to $1,423,000.

Approved by the Board
D.S. Sykes, Director
J.A. Pollock, Director